

Message Text

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PAGE 01 DACCA 03217 180211Z

13

ACTION EB-11

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FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

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FM AMEMBASSY DACCA

TO SECSTATE WASHDC 3698

INFO AMEMBASSY NEW DELHI

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MANILA FOR USADB

E.O. 11652: N/A

TAGS : EFIN, EGEN, BG

SUBJECT : BDG LIBERALIZES INDUSTRIAL INVESTMENT POLICY

SUMMARY: IN PRAGMATIC MOVE DESIGNED TO ATTRACT FOREIGN INVESTMENT AND HELP ACHIEVE GOAL OF RAPID INDUSTRIALIZATION, INDUSTRIES MINISTER ANNOUNCED JULY 16 REVISED INVESTMENT POLICY, PERMITTING INCREASED PRIVATE SECTOR AND FOREIGN PRIVATE PARTICIPATION IN INVESTMENTS AND PRODUCTION. LIBERALIZED POLICY RAISES LIMIT ON INDIVIDUAL PRIVATE SECTOR INVESTMENTS FROM \$333.333 TO \$4 MILLION. SUCH INVESTMENTS PERMITTED IN ALL BUT 18 SPECIFIC INDUSTRIES WHICH RESERVED FOR PUBLIC SECTOR. FOREIGN PRIVATE INVESTMENT PERMITTED IN COLLABORATION WITH EITHER PUBLIC OR PRIVATE SECTOR ENTERPRISES. MORATORIUM ON NATIONALIZATION EXTENDED TO 15 YEARS. FULL TEXT ANNOUNCEMENT FOLLOWS BY UNCLASSIFIED

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PAGE 02 DACCA 03217 180211Z

AIRPOUCH. CHAMBER OF COMMERCE SPOKESMAN PROMPTLY

HAILED NEW PLICY. END SUMMARY.

1. BACKGROUND. REFLECTING THE BANGLADESH GOVERNMENT COMMITMENT TO THE ESTABLISHMENT OF A SOCIALIST ECONOMY, AND FOLLOWING ITS MARCH 1972 TAKEOVER OF ALL ABANDONED UNITS WITH ASSETS EXCEEDING TK 2.5 MILLION (\$333.333 AT TK 7.5 EQUAL \$1.00) AND SIMULTANEOUS NATIONALIZATION OF MAIN INDUSTRIES, PUBLIC (STATE) OWNERSHIP NOW DOMINATES THE INDUSTRIAL SECTOR IN BANGLADESH WITH, BY IMF ESTIMATES, 85 PERCENT OF TOTAL CAPITAL AND FIXED ASSETS UNDER BDG CONTROL. IN JANUARY 1973, BDG ANNOUNCED A SHORT-TERM INDUSTRIAL POLICY FOR 1972/73 AIMED AT INCREASING PRIVATE SECTOR PARTICIPATION IN INVESTMENT AND PRODUCTION, BUT RESTRICTING PRIVATE SECTOR TO SMALL- AND MEDIUM-SCALE INDUSTRIES IN SPECIFIC AREAS OF PRODUCTION. FOREIGN INVESTMENT WAS PERMITTED UP TO 49 PERCENT EQUITY PARTICIPATION IN THE PUBLIC SECTOR, BUT IN THE PRIVATE SECTOR ONLY IN LICENSING AGREEMENTS AND PATENTS. IN AUGUST 1973, THE GOVERNMENT ANNOUNCED A MORE COMPREHENSIVE INVESTMENT SCHEDULE FOR THE PUBLIC SECTOR, PERMITTING ON CASE-BY-CASE BASIS FOREIGN EQUITY PARTICIPATION ABOVE 49 PERCENT, AND OPENING UP MORE AREAS OF PRODUCTION TO PRIVATE INVESTMENT. THE GOVERNMENT ALSO DETAILED NUMEROUS INVESTMENT INCENTIVES INCLUDING TAX HOLIDAYS. ACCORDING TO IMF, AS OF MARCH 1974, SOME 450 PRIVATE INVESTMENT APPLICATIONS WERE SUBMITTED TO GOVERNMENT, BUT ONLY 60 HAD BEEN PROCESSED AND 28 APPROVED. OF THESE 28, ONLY TWO INVOLVED FOREIGN PRIVATE INVESTMENT. IT IS THIS INVESTMENT POLICY WHICH HAS NOW BEEN FURTHER REVISED.

2. ON JULY 16, INDUSTRIES MINISTER SYED NAZRUL ISLAM HELD PRESS CONFERENCE TO ANNOUNCE THE REVISED INDUSTRIAL INVESTMENT POLICY. THE TEXT OF THE ANNOUNCEMENT FOLLOWS BY AIRGRAM.

3. ANNOUNCEMENT SETS FORTH PRINCIPLES KEPT IN VIEW IN ESTABLISHING THE NEW INVESTMENT POLICY. THESE INCLUDE: RESTATEMENT OF COMMITMENT TO SOCIALISM;
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PAGE 03 DACCA 03217 180211Z

JUDGMENT THAT IT CONSIDERED CONDUCTIVE TO GOAL OF RAPID INDUSTRIALIZATION AND MOBILIZATION OF INVESTMENT FUNDS TO AFFORD SCOPE TO PRIVATE ENTREPRENEURS TO INVEST WITHIN 5-YEAR PLAN FRAMEWORK; ENCOURAGEMENT

OF LOCATION OF INDUSTRIES OUTSIDE ESTABLISHED CENTERS; EMPHASIS ON LABOR-INTENSIVE INVESTMENTS; AND QTE FOREIGN PARTICIPATION BOTH IN MANAGEMENT AND EQUITY

WILL BE ALLOWED MAINLY IN PROJECTS WHERE TECHNOLOGICAL AND MANAGERIAL GAP EXISTS AND WHICH WILL BE CONSIDERED NECESSARY IN NATIONAL INTEREST END QTE.

4. PRODUCTION AREAS

OPEN TO PRIVATE SECTOR. AN

18-ITEM SCHEDULE OF INDUSTRIES LISTS THOSE RESERVED FOR THE PUBLIC SECTOR. ALL OTHERS ARE OPEN TO PRIVATE, INCLUDING FOREIGN PRIVATE, INVESTMENT. EIGHTEEN INDUSTRIES INCLUDE
INTER ALIA, DEFENSE, ATOMIC
ENERGY, JUTE TEXTILES (OTHER THAN HAND LOOM AND SPECIALIZED TEXTILES), SUGAR, PAPER, IRON AND STEEL, SHIPBUILDING, HEAVY ENGINEERING AND ELECTRICAL, MINERALS, CEMENT, FERTILIZERS AND OTHER PETROCHEMICALS, BASIC CHEMICALS AND PHARMACEUTICALS, AIR TRANSPORT, SHIPPING, TELEPHONE AND TELEGRAPH, AND ELECTRIC POWER GENERATION.

5. INVESTMENT CEILING. PRESENT TAKA 2.5 TILLION (\$333.333 AT TK 7.5 EQUAL \$1.00) CEILING ON PRIVATE INVESTMENT WAS RAISED TWELVE-FOLD TO TAKA 30 MILLION (\$4 MILLION).

6. FOREIGN PRIVATE INVESTMENT. FOREIGN INVESTMENT PERMITTED IN BOTH PRIVATE AND PUBLIC SECTORS (INCLUDING, IN COLLABORATION WITH BDG, 18 INDUSTRIES LISTED IN PARA 4 ABOVE). IN PRIVATE SECTOR, FOREIGN EQUITY PARTICIPATION WILL BE LIMITED TO HIGH TECHNOLOGY INDUSTRIES, CASES WHERE TECHNICAL KNOW-HOW IS NOT LOCALLY AVAILABLE, OR INVESTMENTS INVOLVING HIGH CAPITAL OUTLAY. TECHNICAL COLLABORATION WITHOUT EQUITY PARTICIPATION MAY BE ALLOWED IN ALL INDUSTRIES.
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PAGE 04 DACCA 03217 180211Z

THE 49 PERCENT EQUITY PARTICIPATION CEILING IS LIFTED, AND THERE IS NO LONGER ANY UPPER LIMIT ON THE PROPORTION OF FOREIGN EQUITY PARTICIPATION.

7. NATIONALIZATION MORATORIUM. MORATORIUM ON NATIONALIZATION RAISED FROM TEN TO FIFTEEN YEARS FROM DATE OF STARTING PRODUCTION. QTE IN THE EVENT OF ANY NATIONALIZATION OF ANY INDUSTRY AFTER THIS PERIOD, COMPENSATION WILL BE PAID ON FAIR AND EQUITABLE BASIS END QTE.

8. PROCEDURES. PRIVATE INVESTMENT APPLICATIONS WILL CONTINUE TO BE SUBMITTED TO THE DEPT. OF INDUSTRIES AS HERETOFORE.

9. PRESIDENT, DACCA CHAMBER OF COMMERCE, DOUBTLESS
REFLECTING PRIVATE BUSINESS REACTION, PROMPTLY HAILED
NEW POLICY AS STEP IN RIGHT DIRECTION.

10. COMMENT: INDUSTRIES MINISTRY SECRETARY GOLAM
MUSTAFA STRESSED TO EMBOFF BDG DESIRE SEE INCREASED
PRIVATE US INVESTMENT IN BANGALDESH AND EXPLAINED
THAT NEW INVESTMENT POLICY CAREFULLY DRAFTED TO
FURTHER THAT GOAL. EMBOFF ASSURED SECRETARY THAT
NEW INVESTMENT POLICY WOULD BE BROUGHT TO ATTENTION
POTENTIAL US INVESTORS.
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